



Written by:
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Franchises - What's The Exit Strategy?

At an International Franchising Symposium in London, Peter Holt made the bold statement to his audience of Franchisors that they needed to understand that their business would fail, and in fact all businesses are bound for failure. Needless to say, there were a few shocked faces in the crowd. He was making the point that it really is just a matter of the number of calendar flips before time strangles any business. It's a hard point to argue when you think that the Neanderthal Fortune 100 included Barney's Dinosaur Obedience School. Not a lot of money in that these days.

Evolutionary change would seem to indicate that we should all prepare for failure. Of course, if we do an extremely good job, perhaps our grandchildren's grandchildren have the problem, and we can rest easy in the hammock for now. In a much more practical view of the calendars we get to flip ourselves, we should think about creating a successful Franchise business, maximizing the value, and realizing the optimum return with an appropriate exit strategy.

The folly often lies in not considering this part of the equation at the very time that you are considering entry into the Franchise in the first place. That's exactly the time when you need to give significant consideration to the value of the asset that can be created. Ongoing profitability, cashflow, and emotional fulfillment, are all important criteria in the process of making an informed business decision about becoming a Franchisee. But then so is the growth of the asset value you create, along with the ease of realizing that value at the time you intend to exit.

Snagglepuss always knew it was 'exit, stage left', but that is not always so clear in the operation of a Franchised business. What is clear is that some dedicated thought needs to be applied at the time of entry so that appropriate strategic planning is put in play. Let's consider a simple example to illustrate the importance of this consideration where you can increase the value of the business by \$200,000 in five years, and

there is a ready and willing market for the business at the end of that time. A straight-line application of the value increase, without considering the time value of money, would indicate that the real average annual earnings would be \$40,000 over and above the net income of the business.

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That should tell you that a business that earns \$80,000 per year in profit might actually be a better investment than a business that makes \$100,000 per year, if the latter has significantly less realizable value at the time of exit. If the plan is succession to family members, then again, the value of the asset to be transferred is of paramount importance, and not just the annual income.

Of course the timing of exit or liquidation will carry significant weight, and it's not always in our control. Gilligan's partnership share of Skipper's Cruise Lines would have been much more valuable before he met Thurston and Lovey. That would indicate that we shouldn't put the hen's product all in one wicker carry case. The consideration should include both ongoing profitability, as well as ultimate asset value at the planned time of exit.

The value of planning can't be overstated. The Allies didn't just decide to go for a boat ride across the English Channel to Normandy one sunny afternoon. The Miami Dolphins didn't win three Super Bowls in a row in the 1970's because they won the coin toss. They even withstood the infamous Garo Ypreman foibles, because their plan was tight and well executed.

It certainly makes sense that a tight, and well executed, business plan would include both the profitability of the venture, and also the ultimate

cash value at the end of the rainbow. The Franchisor should be able to provide you with pertinent information about asset growth, and the factors that will affect transition. If they are unwilling to discuss the matter, the solution is simple – run!

All good Franchisors should be looking for Franchisees that wish to maximize the value of their business with a well laid out plan. That will only enhance the value of the Franchise system as a whole, which increases value for each individual stakeholder. For the Franchisee, it really should be a significant attraction to become involved in the business in the first place.

The 21st century businessperson is the spawn of corporate hijinks and technological advancements in today's global marketplace. What mattered in the past is not important now, including individual employees, whole departments, and entire processes. The new entrepreneur needs to control their own destiny, and will not place their fate in the hands of others. They will not risk Mr. Dithers handing them a pink slip. They believe that assessable risk is required to earn financial freedom. They also understand that the proper equation to assess risk includes both current profitability plus long-term asset creation.

Of course, there must also be emotional attachment to the business at hand in order to optimize value. If the plan is to grow the business to maximize value, and there is emotional commitment to that plan, the results can be dramatic. How important is emotional attachment? I've stayed in hundreds and hundreds of hotels, and yet I've never seen anyone clean the toilet in their room. There's simply no emotional attachment to the asset. I've never seen anyone wash their rental car either. Nurturing, prodding, improving, adjusting, and building, all take commitment in order to be the creator of the ultimate value.

So plan. Plan to profit. Plan to nurture and build. And plan to exit.

Like a baboon picking fleas, each business opportunity has to be examined carefully. The asset value of some service-based businesses will

often hold value, and in fact increase in redeemable value as each new client is added to the business. The exit strategy of a retail location should include an assessment of the initial investment required, real estate values, competition, and demographic factors. The history of increases in Franchise Fees should also be considered to predict future minimum transfer value.

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I experienced a good case in point about Franchise Fees. In 1972, a good friend and I decided that March break was best spent at Daytona Beach, as all good first-year college students conclude. We found this new restaurant there that had line-ups around the block - literally. It was called McDonalds. When we returned to campus, we went to the library to do some research because we were told that McDonalds might entertain building one more restaurant for the right person. The cost at the time was \$25,000. If we could have figured out how to raise the money, we would have become partners in a McDonalds Franchise, and my bet is we would have at least doubled our money.

Portability of transfer, able & willing marketplace, skills & training required for entry into the business, and predicted brand value at the time of anticipated transfer are all part of the equation. Flexibility of the Franchisor to address new market opportunities will create new markets for the Franchise. In addition, expansion plans of the Franchisor need consideration. Static doesn't cut it. A plan to continue to bring in new and vibrant Franchisees well into the future will increase brand value, and nurture the market for the product or service of the Franchise system.

O.K., I didn't say it would be easy to assess. There's a lot to think about. What I am saying is that it would be foolish to avoid the issue. The timing of exit may be 10 years down the road, or 15, or even 25, but at the very least, it should be considered as a part of a long-term strategic plan. Daniel Hudson Burnham said "Make no little

plans; they have no magic to stir men's blood."
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The factors listed above must be assessed and ranked in order of importance before understanding the true value of the anticipated business venture. The maintenance and growth of asset value, as well as portability on transfer will ultimately determine the real return on investment.

Even though Barney was on the bleeding edge when he invented the dinosaur biscuit to reinforce good behavior, his target market ultimately went with the cats and dogs option. Of course, there wasn't a big market for VoIP and Blogs in that digitally deprived age, when zeros

and ones referred to the near death experiences of that particular day. Oh yeah, and it wasn't that long ago, when McDonald was an old farmer.

The real message is that Barney should have had a plan to find a buyer before Rin Tin Tin and Sylvester showed up on his neighbor's doorstep.

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